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STATE OF ALABAMA
Department of Finance
Division of Risk Management

Comprehensive Annual Report
For the Fiscal Year Ended September 30, 2002



Bob Riley
Governor

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General Counsel

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RISK MANAGER'S COMMENTS

The very tight insurance market, made much worse by last year's terrorist attacks, continued in 2002. These are challenging times for trying to maintain the comprehensive, competitively-priced property program that has been in place for years for Alabama schools and government agencies.

The Division of Risk Management (DORM) provides the following services to our clients:

- ✓ **The State Insurance Fund (SIF)** provides quality property insurance for state properties, colleges and universities and most public school systems.
- ✓ **The General Liability Trust Fund (GLTF)** protects state employees who are subjected to lawsuits arising from the performance of their job duties.
- ✓ **The State Employee Injury Compensation Trust Fund (SEICTF)** covers state employees for lost time and medical expenses resulting from accidental injuries while on the job.
- ✓ **The Employee Assistance Program** provides counseling and referral for employees with problems that affect job performance.
- ✓ **Risk Management Services** delivers an array of skilled services designed to avoid loss, both human and financial.

The Division purchases commercial insurance to cover the state's Blanket Bond and to provide aviation coverage. Other commercial policies are purchased as needed.

While the SIF, GLTF and SEICTF had net losses for the year, all have positive fund balances.

The goal of DORM's employees is to provide excellent service to client agencies at the lowest possible cost. We look forward to continued success in FY 2003.

STATE INSURANCE FUND

The State Insurance Fund (SIF) has been protecting state and public school properties since 1923. The SIF also covers the 55 Water Street Building in New York City and the Grand Hotel in Point Clear. Both are owned by the Retirement Systems of Alabama.

The significant rise in private sector insurance premiums brought new clients to the SIF in FY 2002. All 67 county school systems have chosen to insure their property with the SIF, and several additional city systems have decided likewise. Many were facing large premium increases or non-renewals as a result of the present crisis in the insurance industry.

Premiums paid to the SIF by insured agencies are invested and used as needed to pay losses. Reinsurance (\$500 million per occurrence) is purchased to protect the state from disasters such as hurricanes and tornadoes.

SIF clients whose properties have been inspected are offered blanket replacement cost coverage for qualified buildings. Other valuable coverages available to SIF clients:

Extra expense coverage assists clients in keeping facilities operating after a loss.

The SIF's electronic data processing policy provides broad protection for computers, printers and related hardware as well as for software and stored data.

Boiler/machinery insurance is included in the SIF's standard policy. This coverage is reinsured by The Travelers.

The largest single SIF loss in FY 2002 resulted from a fire at the Walker County Board of Education's Carbon Hill High school. A total of \$3,537,092 has been reserved.

The second largest was also a fire claim. The Autauga County Board of Education's Prattville High School incurred a loss to the building and its contents totaling more than \$600,000.

Values Table

FY	STATEWIDE INSURED VALUES	VALUE INCREASE FROM PREVIOUS YEAR	INCREASE
2002	21,858,262,284	1,968,635,457	9.9%
2001	19,889,626,827	1,201,401,396	6.4%
2000	18,688,225,431	1,114,330,758	6.3%
1999	17,573,894,673	2,256,317,091	14.7%
1998	15,317,577,582	1,228,452,640	8.7%
1997	14,089,124,942	876,473,448	6.6%
1996	13,212,651,494	1,414,164,335	12.0%
1995	11,798,487,159	0	0.0%

Property Claim Summary Table

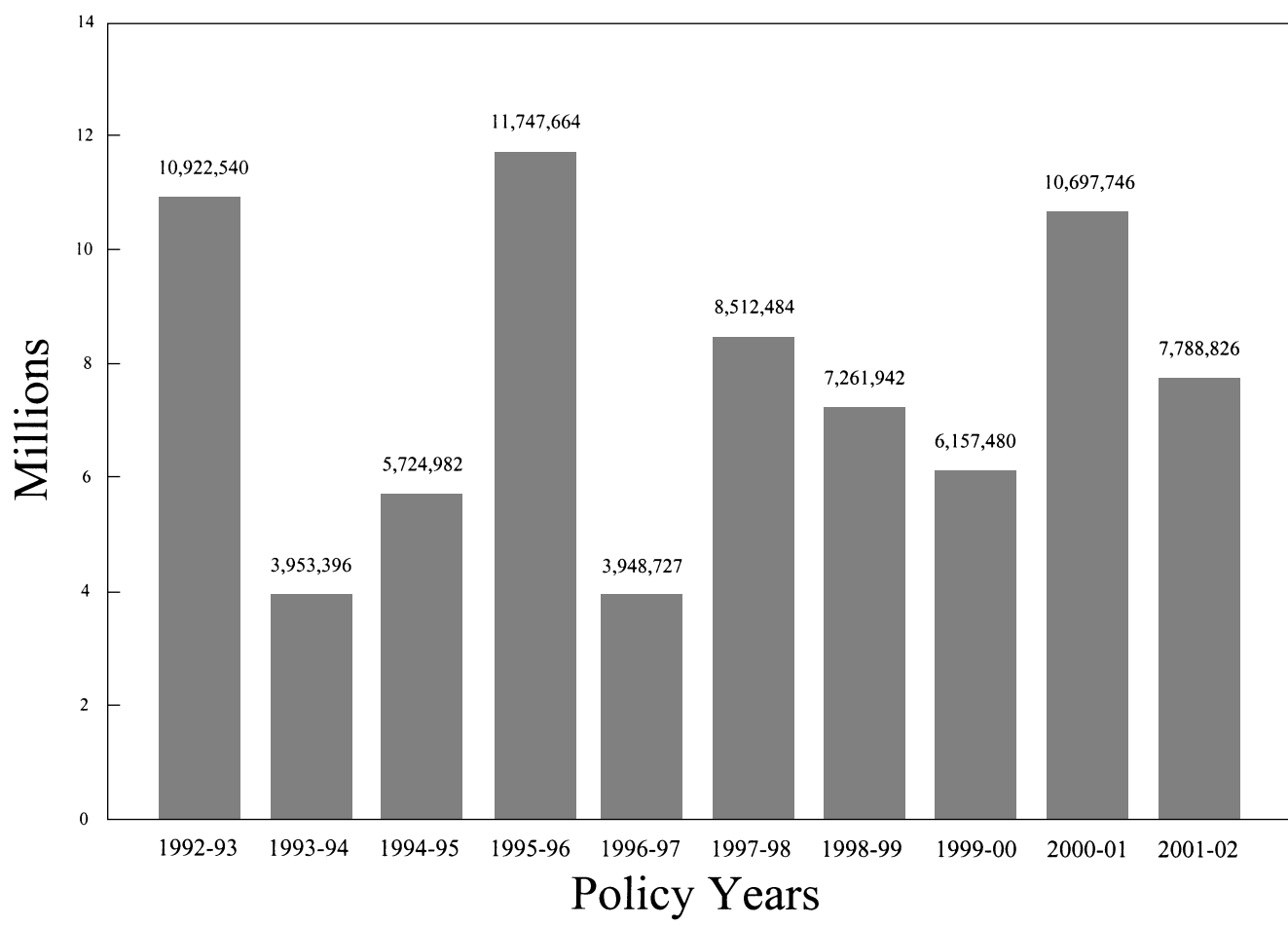
Incurred Losses

Perils	Number of Claims		Incurred Losses FY 2002	% of Total
	FY 01	FY 02	Amount	
Fire	77	81	\$5,947,445	67.00%
Lightning	272	253	979,407	11.03%
Wind	422	90	549,360	6.19%
Burglary	93	105	216,193	2.44%
Vandalism	20	29	60,295	0.68%
Hail	9	5	121,442	1.37%
Vehicle	12	25	55,063	0.62%
Water	94	72	784,070	8.83%
Freeze	0	4	4,720	0.05%
Boiler & Machinery	9	17	118,722	1.34%
Collapse	9	2	24,935	0.28%
EDP	0	2	10,178	0.11%
All Other	18	5	5,498	0.06%
Totals	1,035	690	\$8,877,328	100.00%

Claims Summary

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Claims Handled	690	1,035	840	778
Outside Adjusted	268	538	392	263
Inside Adjusted	422	497	448	515
Average Claim Size	\$12,866	\$9,110	\$8,711	\$11,885

History of Property Losses 1993-2002



GENERAL LIABILITY TRUST FUND

State employees are subject to being sued for their actions in performance of their official duties. The General Liability Trust Fund (GLTF) defends and indemnifies eligible employees for up to \$1 million per occurrence. Coverage is broad and includes automobile liability.

The GLTF sets aside a monetary reserve for each claim in the amount of the ultimate expected loss. Defense is conducted by the Office of the Attorney General in collaboration with GLTF.

In 2002:

The GLTF finished the year with a positive fund balance, although net revenues were negative. There was a significant increase in defense costs for the year and investment returns were down.

The GLTF co-sponsored, with the Attorney General, two governmental liability seminars for attorneys who represent covered employees.

Employee Automobile Liability

GLTF provides liability coverage for the operators of more than 7,000 state owned vehicles. These include trucks, tractor-trailer rigs, state trooper and other law enforcement cars, buses and service vehicles, as well as passenger cars. All claims are adjusted by the American Southern Insurance Company.

In addition, more than 6,000 employees regularly use their personal autos in their state jobs. For these individuals, the GLTF coverage is excess of their personal auto insurance. Finally, all state employees are covered for use of any vehicle on state business in the line and scope of employment, whether they regularly do so or not.

The GLTF paid \$947,142 to settle a lawsuit against employees of the Department of Corrections. The case arose from the violent acts of an escaped inmate, and the settlement was the largest single payout by the GLTF in FY 2002.

A settlement of \$350,000 was made in a case against a former employee of the State Fire Marshall's office. The plaintiff had been arrested and tried for murder after a fire caused the deaths of her spouse and child. Charges were later dismissed. The plaintiff alleged her prosecution had been based upon an improperly conducted investigation that resulted in a finding of arson.

Auto Exposure Table

<u>Class</u>	<u>Description</u>	<u>Number Insured</u>				
		<u>FY 2002</u>	<u>FY 2001</u>	<u>FY 2000</u>	<u>FY1999</u>	<u>FY1998</u>
001	Private Passenger	1,971	1,899	1,803	1,854	1,987
002	Pickups & Vans	2,845	2,783	2,390	2,467	2,537
002A	Mercedes Utility	0	3	3	0	0
003	Trucks & Tractors	1,340	1,400	1,231	1,310	1,317
004	Law Enforcement	1,021	1,018	1,056	982	919
005	Buses	499	509	481	469	475
Total Vehicles			7,612	6,964	7,082	7,235
*020	Class I Drivers	6,090	5,921	5,742	6,312	7,284
**021	*Class II Drivers	13,343	13,230	13,247	13,727	14,623

* Class I drivers are State employees who regularly use their personal autos to perform their State job.

**Class II drivers are all other State employees who do not qualify as Class I.